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RHEHNSC/NSC WASHDC
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RUEHGV/USMISSION GENEVA SZ 0198
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 BAKU 001476

SIPDIS

SIPDIS

DEPT PLEASE PASS TO USTR FOR SHAUN DONNELLY, BETSY HAFNER
AND PAUL BURKHEAD
NSC FOR MATT PALMER
GENEVA FOR AMBASSADOR ALLGEIER
TREASURY FOR CLAY LOWERY, NANCY LEE AND JEFF BAKER
USDOC FOR U/S LAVIN

E.O. 12958: DECL: 10/11/2016

TAGS: ECON EFIN PREL AJ

SUBJECT: AZERBAIJAN: DRAFT 2007 BUDGET PROJECTS 42 PERCENT
INCREASE IN GOVERNMENT EXPENDITURES

Classified By: AMBASSADOR ANNE E. DERSE, PER REASONS 1.4 (B, D)

¶1. (SBU) After months of debate and anticipation, the Government of Azerbaijan is poised to submit its largest ever Consolidated State Budget to Parliament for final approval. After the huge increases in expenditures in the 2006 state budget (an 80 percent increase over the 2005 budget), all economic observers have been anxiously waiting to see the level of planned government expenditures in the 2007 budget.

On September 15, the Finance Minister submitted to the Cabinet of Ministers the draft state budget which was then subsequently passed to President Aliyev on September 25 for approval. The president will pass the budget to the Parliament for final approval on October 15.

¶2. (SBU) The 2007 Consolidated State Budget, reportedly 1500 pages long, is not yet public, but according to initial press reports contains the following information.

--Projected revenues are estimated at USD 6.16 billion.

--Government expenditures will be USD 6.59 billion.

--Budget deficit is projected to be USD 435 million.

--Based on a projected 2007 GDP of USD 25 billion, revenues are 24 percent of GDP and expenditures are 42 percent of GDP.

--Compared to the final state budget for 2006, the draft 2007 budget foresees a total budget increase of 41.2 percent, with revenues increasing 39.7 percent and expenditures increasing 42.6 percent.

--In 2007, government salaries are expected to increase in increments, as they did in 2006.

¶3. (C) While the budget has made it through the Cabinet of Ministers, the total expenditure amounts will probably increase in the coming weeks as different government ministries and agencies jockey for more money. In a recent meeting with the Ambassador, the Executive Director of the State Oil Fund said that the Finance Minister was still receiving many requests for additional funds from different ministries. We believe that the Minister of Finance is

interested in maintaining a short leash on budget expenditures and is looking for additional revenue sources to finance the budget.

¶14. (C) In addition there have recently been many long meetings at the Finance Ministry with different ministerial budget officials, possibly to hammer out final budget details. Some economic observers have noted that the Finance Minister himself may have been behind the press reports detailing the size of the budget, putting a marker down in case the budget increases once it leaves his ministry. The Minister of Finance has told the international community that he withstood heavy lobbying and criticism in keeping the total budget increase to 40 percent. It is still unclear the total amount of money the GOAJ will transfer from the State Oil Fund for budgetary support. In 2006, the Oil Fund transferred more than USD 600 million to the budget. Once the budget is public, Post will provide a detailed analytical report on its contents and macroeconomic effects.

¶15. (C) In a recent meeting with the Ambassador, Economic Development Minister Babayev confirmed that government ministries and agencies are lobbying for additional infrastructure project funding in the 2007 budget. Babayev stated that line ministries wanted to spend more than USD 4 billion in capital expenditures on public investment projects in 2007. Both he and Minister of Finance Sharifov believed that this large amount could threaten overall macroeconomic stability and agreed to limit public investment project spending to USD 1.5 billion, adding that USD 1 billion of this total would come from foreign investment.

¶16. (C) COMMENT: In 2006, the government increased spending by more than 80 percent; in 2007, the government apparently

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plans to spend an additional 42 percent on top of last year's large increase. This rapid fiscal expansion, while necessary to modernize and grow the economy, could lead to some macroeconomic destabilization effects, such as higher inflation, later in 2007. In addition, it is unclear if Azerbaijan's relatively small economy is able to absorb the large amount of money or if the GOAJ is able to manage the expenditures without massive waste and corruption. We will report full details on the budget as soon as they are available.

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